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A Comprehensive Insight into the A share Market in China

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Abstract: To study the current situation of China's A-share market, this study contains a lot of literature and summarizes and analyzes the most prominent phenomena of China's A-share market at present. China's A-share market has been turbulent due to economic reforms, and the share of long money is still too small overall. Secondly, China's A-share market continues to open up, bringing fresh blood to the market and improving the long money problem. Third, China's introduction of ESG indicators has brought more references to both companies and shareholders. It also brings more foreign investment institutions to China, which can bring more stable long-term investment to the unstable A-share market and improve the status of having too many retail investors in A-shares now. Last but not least, China has started the era of full registration system, which brings more opportunities and challenges to the A-share market. There are also many problems, which will be pointed out in the text and suggestions given to solve them.

Keywords: China, A share market, ESG

1. Introduction

Over the past 30 years, China's capital market has weathered the storm and realized tremendous development. Today China's capital market has become the second largest in the world. Many global investors no longer consider the Chinese market as part of the emerging markets, but as a separate asset class in their asset allocation. This shows the importance of the Chinese market. While witnessing its growth, it is crucial to identify problems in a timely manner. Rapid growth always tend to be accompanied by many invisible problems. Furthermore, China's economic structure has been undergoing a transformation in the past few years and economic growth has slowed down, which makes it all the more necessary to see whether the stock market has responded correctly and whether the government and enterprises have made corresponding countermeasures. Coupled with the fact that the epidemic has just passed, it will also be important to see if the A-share market stagnates during the two years of closure. Therefore, this paper is going to analyze the current situation of A-share market, find out its problems and give suggestions.

2. A-share market status

China's economy has recently entered a new phase of transition, and the A-share market is in disarray. China's economy has made remarkable strides after more than 30 years of reform and opening up, becoming the first "manufacturing country" in the world. However, in recent years, due to "universal speculative fever," a significant amount of financial capital has been invested in real estate-related industries, affecting the transformation and upgrading of the real economy. As a result of the market shift, the A-share market needs more long money to stabilize it, which is currently a very small percentage of the market.

Similarly, the pace of opening up China's capital market to the outside world has never stopped. In September 2019, the State Foreign Exchange Bureau announced the removal of investment quota restrictions on QFII and RQFII; immediately after, in October, the Chinese government announced that it would remove the foreign share ratio restriction on some financial institutions in 2020, including futures companies, fund management companies, and securities companies [1]. At the same time, foreign investment institutions are allowed to set up or take stakes in banks' wealth management subsidiaries or pension management companies, foreign asset management institutions are allowed to hold wealth management companies, and it is further facilitated for foreign institutional investors to invest in the inter-bank bond market, etc [2]. The entry of foreign capital into China's capital market will increase the number of long-term institutional investors, which will be conducive to the stability of China's A-share market and allow more long-term money to enter the market. Moreover, the introduction of foreign capital has allowed the A-share market to have more new asset management concepts and enriched the products of China's capital market. For example, the introduction of ESG principles, in November 2018, China Securities Investment Funds Association released the <Research Report on ESG Evaluation System of Chinese Listed Companies> and <Green Investment Guidelines (Trial)>, which established a key indicator system for evaluating the ESG performance of listed companies, and clarified the principles, objectives as well as the basic methodology of green investment, which is of strong practical significance [3].

On February 2, 2023, the CPC Central Committee and the State Council approved the Overall Implementation Plan for Comprehensively Implementing the Registration System for Stock Issuance, which had a far-reaching impact on the A-share market [4]. On November 5, 2018, the Shanghai Stock Exchange set up the GEM Board and piloted the registration system, marking the start of the implementation phase of the registration system reform. On July 22, 2019, the first batch of GEM Board companies were listed and traded. Thereafter, the CPC Central Committee and the State Council decided to promote the reform of the GEM board of the Shenzhen Stock Exchange and pilot the registration system, and on August 24, 2020, the board was officially launched. On November 15, 2021, the Beijing Stock Exchange was inaugurated and opened for business, simultaneously piloting the registration system. The success of these pilots reflects the importance the state attaches to the healthy development of the capital market. After the success of the pilot of the registration system of the GEM and the Science and Technology Innovation Board, it effectively promotes more capital to invest in the wave of scientific and technological innovation, and it has been proved that the registration system helps to enhance the investment in research and development of enterprises [5].

3. Problems

3.1. Scale of Long Money is not Large Enough

Nowadays, China has shifted the focus of economic development from real estate investment to science, technology and innovation, and cultural industries. In the short term, technology will not be able to make up for the decline in real estate and investment, so the economy may remain at a low growth rate for a longer period of time. Also, there is an issue of retail investors in Chinese stock market. At the same time, China have stepped into the time of full registration system. So In this case, "short-term money and long-term use" in the capital market becomes crucial [6].

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3.2. Deficiencies if ESG

Currently, there are many guidelines and regulatory standards on ESG in China, and there is a lack of an authoritative and nationwide consistent system. This makes it difficult to compare ESG reports among enterprises, and thus may not provide comparable and useful information for investors' decision-making, and also makes it difficult to make an accurate assessment.

ESG information disclosure needs to be improved. Although the number of ESG reports issued by listed companies in China, the disclosure rate of indicators and the quality of disclosure have been steadily improving, there is still much room for improvement. Currently, Chinese enterprises do not disclose ESG information frequently enough, and most of the information disclosed is qualitative information, lacking quantitative information disclosure, which cannot serve investors in a timely and accurate manner.

Insufficient depth of ESG concepts among investors. Compared with developed countries, the development of ESG in China is not yet very deep, and many market participants lack knowledge of ESG, do not recognize the significance of ESG investment concepts and have not formed ESG investment habits [7-8].

3.3. Challenges of the Full Registration System

Under the full registration system, the conditions for listing enterprises are relaxed, the cycle becomes shorter, and the number of listed enterprises increases substantially, which will increase the chances of illegal and criminal offenses in the securities market and allow some unscrupulous enterprises to take advantage of the loopholes while the full registration system develops.

Similarly, listing has become easy, which will allow many enterprises to be over-ambitious and expand blindly, affecting the stability of enterprise development.

The increase in the number of listed companies has led to greater competitiveness and the normalization of delisting in the A-share market. Choice data shows that the number of listed companies delisted in 2021 and 2022 will be 23 and 50, respectively. As of the end of May, 8 companies have been delisted so far this year, and about 30 companies are in the process of delisting [9].

The full registration system increases the risk of retail investment. Firstly, by removing the restrictions on the issue price of new shares and handing over the pricing of new shares to the market, the price-to-earnings ratio of new shares issued will break the original policy constraint of 23 times. Secondly, the first five trading days after the listing of new shares is not limited to upward and downward limits, so the speculation of new shares on the first day of listing may be completely one-step, and if the investor buys new shares at too high a price, he or she is likely to become a high receiver. Furthermore, after the implementation of the full registration system, the number of A-share listed companies will grow rapidly, and the more listed companies there are, the more difficult it will be for retail investors to identify risks. Finally, the delisting risk will have to be borne by retail investors themselves.

4. Response measures

4.1. Deepen the Implementation of Market Culture for Long Time Investing

The proportion of institutional investors and the level of institutional specialization should be steadily increased to promote the long-term healthy development of the capital market. With the continuous support and guidance of domestic policies and the deepening opening of China's capital market to the outside world, it is expected that domestic institutional investors with long-term investment concepts, such as pensions, insurance funds and annuity funds, as well as overseas long-term funds, will

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increase their allocations to equity assets. The multi-level pension system should be continuously improved, and the two-way promotion of pension and capital market can be continued to be strengthened from expanding the proportion and investment scope of the market, lowering the threshold for the establishment of enterprise annuities, and increasing tax incentives. In terms of the personal pension system that has already broken through, it can be promoted and expanded in due course on the basis of summarizing the pilot experience and improved in terms of raising the upper limit of the amount, enriching the investment varieties, and enhancing the convenience of operation for investors. And should continue to expand the opening up, to attract outstanding foreign professional institutions, enrich the type of medium and long term equity products.

4.2. Suggestions for ESG

Government departments should join hands with other relevant organizations to play an authoritative role in formulating a set of nationally unified ESG disclosure guidelines and regulatory rules and make it clear that ESG information disclosure is mandatory, or learn from other practices, and gradually guide and encourage enterprises by providing explanations for non-disclosure. At the same time, China should pay attention to the fact that China cannot copy the experience of foreign countries but should establish an ESG system with Chinese characteristics according to our national conditions, including disclosure standards, assessment contents, and assessment process.

The government can join hands with relevant organizations and media to instill ESG concepts in enterprises through online publicity, forums and training, so that enterprises can realize the significance of ESG concepts in promoting the sustainable development of the economy and the realization of China's "dual-carbon" goal. In addition, enterprises should be made to realize that ESG performance affects their economic returns and social image, so as to encourage them to actively build up their ESG performance and increase their enthusiasm and initiative in disclosing information. Financial institutions should be guided to launch and optimize ESG products and make quality ESG investments. Individual investors should also be encouraged to take into account the ESG performance of enterprises when making investment decisions, so as to guide their investments to the right direction.

Upgrade and enrich the ESG rating database. The ESG assessment results of enterprises should be supported by sufficient and objective data. Rating agencies should not rely too much on the information disclosed by enterprises in their reports but should collect as much basic data as possible. They should collect as much basic data as possible. Rating agencies can broaden their data sources by collecting data from the government and the media. When possible, they can use intelligent means to collect, integrate and analyze data, which can improve efficiency on the one hand and be more objective on the other.

4.3. Improvements to the Full Registration System

To control the type and number of listed companies under the full registration system. In the era of the full registration system, the potential of the capital market to promote the development of the real economy can be fully realized. However, in view of the overall size and structural distribution of social capital in China, it is not appropriate to allow any enterprise to access the capital market. For example, some companies are not listed for the purpose of technological development, then this will not be favored by shareholders. Again, some companies already have a lot of problems, but at this time also want to take the opportunity to go public to raise funds, that is irresponsible to the shareholders, but also not conducive to the company's own development.

To better protect retail investors, de-investorization not the elimination of retail investors. First, to expand and optimize institutional investors, so that retail investors can be assured that their funds will be managed by institutional investors, and the regulator should cultivate a concept of financial development with Chinese characteristics. Secondly, financial products have been enriched, such as individual pensions, corporate pensions, commercial pension insurance, pension target funds, reverse mortgage home pensions, tax-deferred individual retirement accounts, and so on. Third, from an investor's perspective, it is necessary to strengthen risk education for retail investors [10].

Regulators and government should summarize the experience in real time and improve it. Under the full registration system, the pressure on issuers and intermediaries has been shifted forward, which helps to nip risks in the bud and improve the quality of initial public offerings. However, it is not enough to rely solely on brokerage firms and intermediaries to monitor the quality of initial public offerings; regulators and exchanges also need to play a role. Under the full registration system, the pressure on issuers and intermediaries has been shifted forward, which helps to nip risks in the bud and improve the quality of initial public offerings. However, it is not enough to rely solely on brokerage firms and intermediaries to monitor the quality of initial public offerings; regulators and exchanges also need to play a role. Regulators and exchanges need to update their regulations and improve their systems to adapt to the full registration system, and to learn from experience and make improvements in a timely manner.

5. Conclusion

To summarize, China's A-share market, currently facing economic transformation, opening up to the outside world the citation of new policies, the promotion of a comprehensive registration system, all of which makes the A-share market is facing many challenges, at this moment, China's A-share market needs more formal institutions to regulate, to lead, and to invest more long money, to ensure that the market's stability. Similarly, the government and various securities-related organizations need to make greater efforts to make a series of changes in the stability of the market. In addition to institutional organizations, retail investors also need to update their knowledge base more so that they can truly protect their rights and interests.

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